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DEPT FOR EUR/SCE  
STATE FOR USAID AID/A/COO: ELIZABETH MCKEON  
EE/AA: SARAH BERRY  
EE/ECA: MICHAEL FOSTER

E.O. 12958:N/A

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SUBJECT: ALBANIA, SCENESETTER FOR HENRIETTA FORE, ADMINISTRATOR OF  
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT AND U.S. DIRECTOR  
OF FOREIGN ASSISTANCE

#### SUMMARY

¶1. (SBU) Henrietta Fore, Administrator, U.S. Agency for International Development and Director of United States Foreign Assistance will visit Albania from May 17-19, 2008. Administrator Fore's purpose in visiting Albania is to convey to the Government of Albania (GoA), judicial officials, business and civic leaders, in scheduled public appearances and private meetings, the importance of taking concerted action to reduce corruption in order to improve Albania's business and investment climate and accelerate the country's progress toward NATO membership. Ms. Fore's visit comes two months after an arms depot on Tirana's outskirts exploded, killing 26 people and touching off a spasm of political recriminations and corruption accusations; some six weeks after Albania received its NATO invitation; a few weeks after a major survey showing corruption is still a serious problem in Albania. Ms. Fore's visit also coincides with the review by the Millennium Challenge Corporation (MCC) of the GoA's \$18 Million anticorruption Threshold Country Plan to follow its current, successful MCC Threshold Program. END SUMMARY.

¶2. (SBU) DOMESTIC POLITICAL OVERVIEW: Albania is a multi-party parliamentary democracy, with eleven parties represented in Parliament. The majority coalition selects the Prime Minister (Head of Government), currently Sali Berisha, who has held the post since July, 2005. The President of the Republic (Head of State) is selected by Parliament to a five-year term. President Topi was elected in July 2007 in an orderly transition of power. National elections will be held again in 2009. Albania's two largest parties, the Democratic (DP) and Socialist (SP) Parties, descend from the Communist Party, and many of Albania's senior leaders were trained in the communist system. A younger generation has begun to emerge on the political and economic scene some 17 years after the fall of communism. The political system is highly polarized, but trust and cooperation among majority and opposition have improved over the last several months. Recently, the two major parties coalesced to pass electoral and constitutional reforms in the context of NATO integration. The Government has a solid majority in Parliament, and this was the first time the two joined in a common legislative effort. NATO allies extended an invitation to Albania in April 2008, with accession targeted for 2009.

¶3. (SBU) ECONOMIC DATA: Since the fall of communism in 1990, Albania has set itself on the path toward an open market economy. Beginning in 2001, Albania has experienced a rapid expansion of its economy and has maintained a remarkable degree of macro-economic stability over the past seven years characterized by an average economic growth rate of almost 6 percent from 2001 through 2007, low inflation averaging 2.5% and a budget deficit within an IMF target of 3.8% of

GDP in 2007. Albania's nominal GDP in 2007 totaled \$10.6 billion and is expected to reach \$12 billion in 2008. The Albanian currency, the lek, has appreciated against the dollar and remained stable against the euro. The country has seen rapid economic progress since the economic collapse of 1997. The GDP and export growth rates were the fastest growing in Southeast Europe from 1997 to 2005. Per capita income more than doubled in the last five years, to \$3,353 in 2007. The number of Albanians living in poverty was reduced in 2005 to 18.5% of the population, down from 25.4% in 2002 (World Bank 2005 Poverty Assessment), lifting 220,000 people in a population of over 3.1 million out of poverty in just three years. However, the country remains among the poorest in Europe and ranked 65 of 177 on the UNDP's 2004 Human Development Index.

14. (SBU) Albania also has a low level of foreign direct investment and a

growing trade deficit which amounted to an estimated 27.1% of GDP in 2007. Unemployment is high, officially at 13.8% in 2007. However, a high level of remittances (approximately 14% of GDP) from abroad softens the unemployment impact on the general population. Labor costs are among the lowest in the region and the country boasts a young workforce by European standards, with a median age of 29 (compared to 40 in Italy). Services lead GDP composition with approximately 47% of the total; agriculture comes second at 23%. The remaining major economic sectors are industry (12%), construction (10%) and transport (9%). The private sector accounts for more than 75% of GDP and over 62% of employment. In 2006, Albania signed the Stabilization and Association Agreement with the European Union which is seen as the first step to eventual EU membership. Albania is also part of CEFTA (Central European Free Trade Agreement), a regional free trade agreement which is expected to take effect this summer. The EU remains, by far, Albania's main commercial partner, providing 61% of Albania's imports and receiving 88% of total exports. Trade with Italy and Greece represent the largest share of EU trade with a combined 44% of imports and 82% of exports. On December 1, 2006, the Interim Agreement between Albania and the European Union entered into force. The Interim Agreement will

reduce the average nominal tariff on EU imports and is expected to increase imports from EU countries. The U.S. accounts for a small share of Albania's trade volume, just 2% of the total. Albania is a member of the WTO and cooperates closely with the IMF and World Bank.

#### THE CORRUPTION PICTURE: ALBANIA 2008

15. (SBU) For a Government elected in 2005 on a pledge to root out corruption, the last year has brought a string of mixed, mostly bad news, from a number of surveys and reports. Transparency International (TI) released its "Corruption Barometer Survey" in December 2007 showing Albania performing in the highest quintile globally, alongside Cambodia, Cameroon and Nigeria, in terms of the degree to which it is affected by bribery. TI also reported that 71% of Albanians had "paid a bribe to obtain a [public] service," compared to 30% in 2005. The TI Corruption Perception Index published last fall, meanwhile, showed that Albania is perceived as the most corrupt country in southeastern Europe, though Albania's low score showed a slight improvement in 2007 (2.9) over 2006 (2.6; 10 is highest score). Albania has improved its overall corruption perception ranking, thus continuing slight improvements over several years.

16. (SBU) A USAID-funded Annual Corruption in Albania Survey (2008) that

was released this May 2008, meanwhile, appeared to reinforce the backsliding perception. The survey found that 92% of Albanians think corruption is widespread, a decline of 8 points over 2006; that 47% of Albanians believe corruption increased over last year (47.2%), 13% more than in 2006. Nearly 70% of people surveyed reported paying a bribe for medical treatment, while 60% reported having little or no trust in the judicial system. By a 3 to 1 margin, the USAID-funded survey found, Albanians do not think the judges are impartial when conducting trials.

17. (SBU) In November 2007, the Millennium Challenge Corporation presented a mixed picture of Albania's performance. On the one hand, Albania

fell short in the "Ruling Justly" category of the country scorecards used to determine MCC Compact eligibility, meaning that Albania scored below its income group median in this area. On two key measures in this category, the Control of Corruption and Rule of Law Indicators -- considered "hard hurdles" to qualify for an MCC Compact -- Albania scored in the bottom quartile of its income group, prompting the MCC to not consider Albania for compact status.

18. (SBU) Albania in fact improved according to most MCC indices over the last two years. The MCC took note of the overall trend and invited the GoA to apply for a "Stage II" Threshold Program to follow the current, successful Threshold Program which expires in September 2008. On April 18, 2008, The Government of Albania submitted its Threshold Country Plan (TCP) to the MCC, where it is now being reviewed. As with its previous TCP, the GoA pledged to put in place preventive and enforcement measures aimed at reducing corruption and improving judicial performance.

#### RECENT ANTICORRUPTION ACTIONS

19. (SBU) Reports and surveys aside, the GoA has in fact taken steps to fight corruption over the last few years. Progress is slow and concrete results elusive. So far, while the Prime Minister Berisha pledges "zero tolerance" against corruption, the fact remains that the first successful high-level prosecutions on corruption charges just occurred. Few officials, high or low, have served any serious jail time. In the last few years, though, independent audit agencies, such as the High Inspectorate for the Declaration and Audit of Assets (HIDAA), have been actively auditing asset and conflict of interest declarations, with the result that scores of petty officials have been dismissed for conflict of interests or for filing fraudulent declarations. However, no official has yet to be prosecuted for conflict of interest violations or for concealing assets on declarations.

110. (SBU) Over the last year, the Government has mounted a law enforcement counteroffensive against corruption, establishing a special investigative unit, a serious crimes court and a witness protection unit (all with US Department of Justice support). Under the new Prosecutor General, Ina Rama, a special investigative unit ("Task Force") has aggressively pursued lawbreakers over the last half-year, arresting some 70 officials on corruption charges, most recently placing under house arrest the Director of the Tax Department on charges of kidnapping and torture.

111. (SBU) Other initiatives pushed or brokered by President Bamir Topi -- a former Democratic Party stalwart and Member of Parliament

who seeks to preserve his presidential role of remaining above the partisan fray -- were aimed at paving the way for a long overdue reform of the Albanian judiciary, seen by most Albanians as corrupt.

In February 2008, the Albanian Parliament passed a law by multiparty consensus that addresses a multitude of problems plaguing the judiciary, from poor quality judges, to slow resolution of cases, to unethical conduct and unprofessional court decisions, to weak enforcement of judgments. The law has yet to be implemented. (Ref A)

112. (SBU) GoA reform efforts under the Millennium Challenge Account (MCA) Threshold Program (begun in September 2006) to reduce petty corruption in three areas of public administration: taxation, procurement and business registration have begun to take hold. The business registration reform has been an unequivocal success in sealing off opportunities for bribery in business registration while simultaneously streamlining registration procedures. As of May 2008, it now takes an average of one day to register a business (as opposed to several weeks in 2006, prior to the MCC program) and some 9,000 new businesses have been registered under the new system. In the tax administration, the MCC project introduced measures like e-filing, which reduced the contact with tax official and the resultant "negotiations" between taxpayers and officials that were fertile terrain for corruption. In procurement, the MCC project with cooperation from the Public Procurement Agency, launched in March 2008 an electronic procurement system, which is now being used by all GoA ministries, a measure that will likely, in the longer term, increase competition for government procurements while reducing the cost of the average procurement, in addition to

reducing the opportunities for corruption in the procurement process.

#### GERDEC TRAGEDY

¶13. (SBU) But it is the tragedy on March 15, 2008 that may well define the Berisha Government's corruption-fighting record. On that day, a munitions depot located in a populated area only a few kilometers outside Tirana (the town of Gerdec) exploded, killing 26 people and injuring more than 300. In the days following the blast, political recriminations and accusations by opposition forces that abuse of power led to the tragedy forced the Minister of Defense, Fatmir Mediu, to resign his post. Prosecutor General Rama subsequently asked Parliament to lift the immunity of the former Minister, also a Member of Parliament, in order to permit an investigation for Mediu's alleged role in the tragedy. (Refs B and C.) The U.S. Southern Ammunition Company, Inc. was the primary contractor and subcontracted to an Albanian firm to do munitions dismantling at the site. While representatives of the company denied responsibility for the blast, saying their contract involved small-caliber ammunition and not the larger ordnance that exploded at the Gerdec depot, the tragedy nonetheless tarnished the high esteem in which the U.S. was held by the Albanians.

¶14. (SBU) A few encouraging signs have emerged from the ashes of Gerdec.

The Albanian media (which, while highly politicized, ranks high in public perceptions as a corruption-fighting agent) did a creditable job of shedding light on the circumstances surrounding the Gerdec tragedy in the immediate aftermath of the explosion. The Prosecutor's Office, for its part, has begun an intensive investigative process that had heretofore been absent in Albania. (The U.S. sent an experienced forensics team from the Bureau of Alcohol, Tobacco and Firearms in response to her request for assistance).

#### CORRUPTION OUTLOOK

¶15. (SBU) Albania must implement a rigorous program of broad-based reforms to strengthen government institutions, improve adherence to the rule of law, and reduce corruption while respecting democratic norms if it is to make steady progress toward NATO membership, which looms larger than ever following the invitation at the NATO summit in March. The lack of strong, effective institutions and respect for the rule of law impedes progress in all areas, including attracting the investment needed for economic development. Institutions crucial to Albania's democratic development, including NGOs, the media, and business coalitions, are still relatively immature, and it will take years of work to build them up to create a strong, sustainable democracy.

¶16. (SBU) You may choose to emphasize the importance of these issues, and

in particular the need for aggressive near-term actions, such as the lifting of immunity for public officials, stepped-up law enforcement that respects the independence of institutions, rapid progress on judicial reforms, and the completion of the reforms to which the GoA committed itself under the MCA Threshold Program. It is worth

reminding the GoA that the U.S. Government's decision on Albania's Stage II MCA Threshold Country Plan has not yet been made; that the US will be watching the GoA's actions over the next few months to satisfy itself that the its commitment to anticorruption reforms remains strong.

#### WITHERS